Colorado Secure Savings Plan Board

Senate Bill 19-173 Report to the Legislature – First Draft

January 27, 2020

After thoughtful study and consideration, the Colorado Secure Savings Plan Board is providing this report on Retirement Security in Colorado, with associated recommendations. The report follows this format:

1. On Background
2. Retirement (In)Security in Colorado – The Need is Significant and Growing
3. Fiscal Impact of Insufficient Savings
4. Improving Outcomes in Colorado – Models and Opportunities
5. Improving Retirement Security – These Solutions Fall Short
6. Improving Retirement Security - Recommendations for Colorado
7. Implementation Timeline and Program Expectations

   First Draft Readers please note, illustrations throughout are from underlying studies and, if retained, should be standardized into a consistent look and feel for this report.

PLEASE NOTE – the purpose of this draft is to get the major ideas, content flow and supporting elements in place. This allows us to identify any missing data, arguments, or elements. From here forward the purpose is **amplification, illustration, and simplification** of the information presented.

On Background.

Signed into law on May 20, 2019, Senate Bill 19-173 created the Colorado Secure Savings Plan Board to study appropriate approaches to increase the amount of retirement savings by Colorado's private sector workers. The Board is required to present a final report on its findings to the Governor and the General Assembly on or before February 28, 2020.

Specific study requirements of the Board included:

- Execution of a detailed market and financial analyses to determine the financial feasibility and effectiveness of creating a retirement savings plan in the form of an automatic enrollment payroll deduction IRA, characteristics as described in section 24-54.3-104 (2).
- Execution of detailed market and financial analyses to determine the financial feasibility and effectiveness of a small business marketplace plan, characteristics as described in section 24-54.3-104 (3).
- Assessment of the effects that greater financial education among Colorado residents would have on increasing their retirement savings.
- Execution of an analysis assessing the effects that not increasing Coloradans' retirement savings would have on current and future state and local government expenditures

The Board executed a public procurement process and retained three sets of experts to support its study activity:

- **Corona Insights**, a Colorado-based market research, evaluation, and strategic consulting firm – to conduct public savings research assessing the effects that greater financial education among Colorado residents would have on increasing their retirement savings. [add some of Corona's expertise proof points as described in their RFP proposal?]
- **Boston College's Center for Retirement Research** to evaluate the feasibility and effectiveness of a) an automatic enrollment payroll deduction IRA program, and b) a small business retirement marketplace. Boston College is the most experienced provider in this space, having conducted analytical work and research for more than x states evaluating in-state population characteristics and the efficacy of proposed programs. [add some of BC CRR's expertise proof points as described in their RFP proposal?]
- **Econsult Solutions, Inc. (ESI)** to analyze the fiscal impact of insufficient retirement savings on the state of Colorado. ESI has served a wide range of state governments and others, conducting numerous studies and analyses involving estimating economic and fiscal impacts of proposed programs, policies, and initiatives, quantifying and evaluating real estate market trends, and performing financial-feasibility assessments. ESI has recently executed similar work for states like Pennsylvania and brings very current expertise to bear in Colorado.

The following summarizes the findings and recommendations of the Board.

Retirement (In)Security in Colorado – The Need is Significant and Growing.

It is known that very few workers save for retirement outside of work-based retirement savings plans[1]. Even when alternatives exist, the barriers to use can be many and significant for a workforce whose education and regular activities don't naturally turn them into financial services experts[2]. For these two reasons, it is important to understand the scope and characteristics of workers in Colorado who are, and aren't, covered by retirement plans at work.

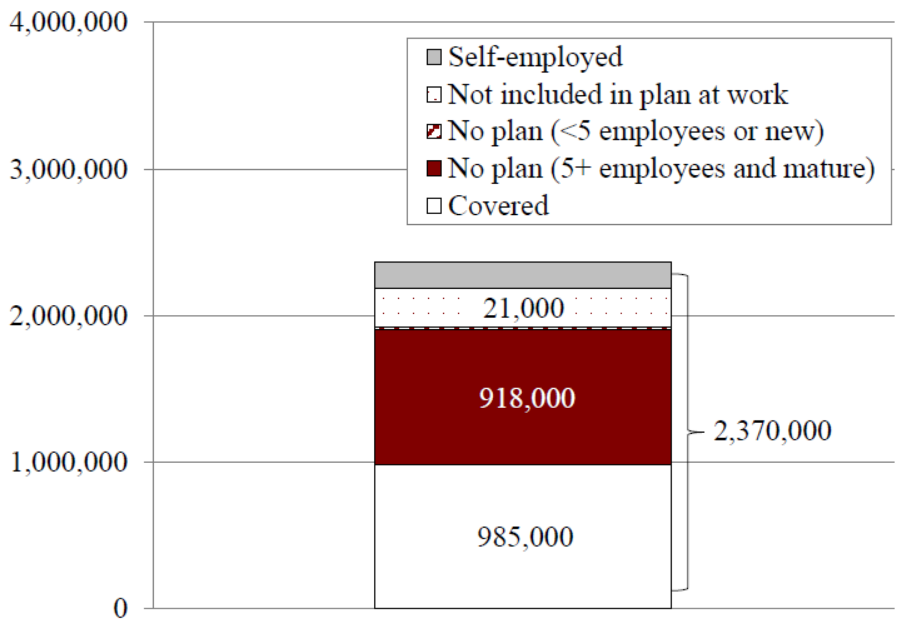
First, the good news. Over 40% of working Coloradans – nearly a million people – are covered by a retirement plan at work. While their characteristics vary widely, as a group they tend to have higher earnings, higher levels of education, and more stable employment. They are more likely to be employed in professional occupations and manufacturing and to work full time. As a group they also experience higher levels of financial empowerment: they regularly engage with the financial system, are more likely to understand key financial concepts, and are far more likely to be able to come up with a few hundred or a few thousand dollars in case of a financial emergency[3]. This puts them in a position of greater financial capability and resilience.

Regrettably, nearly 60% of working Coloradans are not in the same position:

- More than 939,000 workers – 40% of the workforce - work for an employer that does not offer a retirement plan
- More than 10% - 265,000 workers - work for an employer who offers a plan, but not to them (part time workers and other categories), and
- 181,000 workers are self-employed or independent contractors[4]

[1] Center for Retirement Research at Boston College (CRR), *Study A: Colorado Secure Savings Plan* (2019), 2.
[2] Corona Insights, *Retirement Savings Research for the Colorado Secure Savings Plan Board* (2019), 50-58.
[3] CRR, *Study A: Colorado Secure Savings Plan*, 4-9.
[4] Ibid, 3-4.

Figure 1. *Number of Colorado Workers by Coverage Status, 2019*



Sources: CRR calculations from U.S. Census Bureau, *Current Employment Statistics* (2019); *Current Population Survey* (2014, 2018); and *Business Dynamics Statistics* (2016).

Individual circumstances vary widely here as well but for Colorado it is useful to understand some of the characteristics associated with the uncovered portion of the workforce. As a population, uncovered Coloradans are more likely to be employed in services jobs (restaurant, food service and hospitality; craftspeople, plumbers, electricians, and installers), in construction, and in the raw materials industries (agriculture, mining, forestry).[5] They are also more likely to earn less, experience more job transition or to be more mobile, are somewhat more likely to work part time, and tend to have less financial experience and capability.[6] These characteristics do not change the importance of retirement and other savings – and in fact may make having some savings even more important as a source of resilience against natural volatility in income and circumstances.

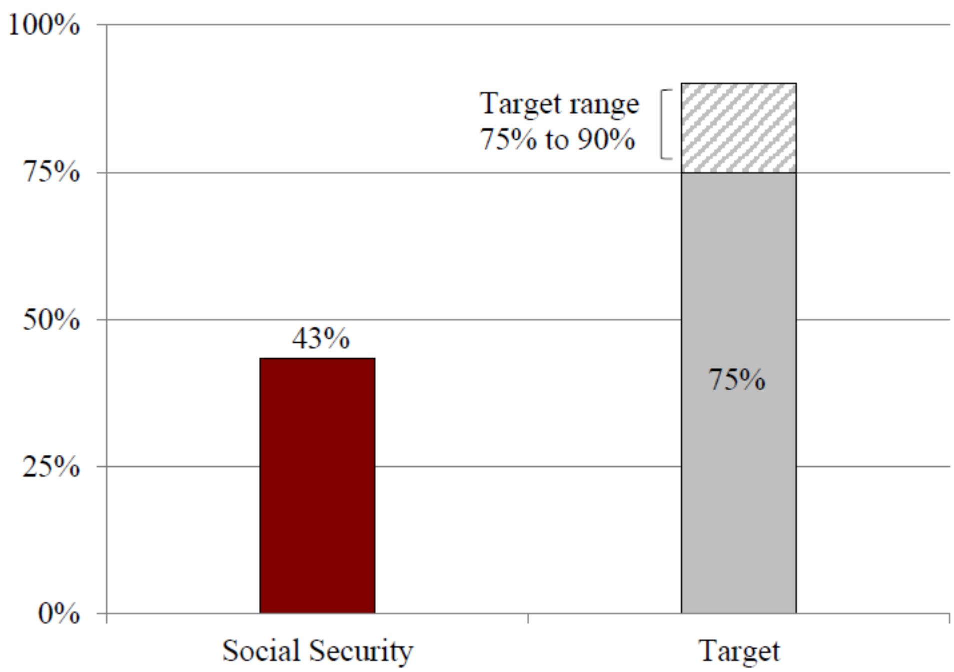
Importantly, even though Social Security is progressive and generally provides a higher level of income replacement for lower income workers, as a population uncovered workers in Colorado can expect to experience a meaningful income gap if they have not saved independently for their retirement[7].

As shown in Figure[x], when a low-earning worker retires at age 65 (and Social Security's Full Retirement Age reaches 67), Social Security will replace 43 percent of his or her pre-retirement earnings. Standard

[5] Ibid, 5.
[6] Ibid, 4.
[7] CRR, *Study A: Colorado Secure Savings Plan*, 9-10.

benchmarks indicate that low earners need 75 to 90 percent of previous earnings to maintain their standard of living.

Figure 4. *Replacement Rate from Social Security and Target Replacement Rate*



Source: CRR calculations from *Current Population Survey, March Supplement* (2018).

Taking all workers and retirees together, there is now a significant gap between the level of savings required to maintain living standards in retirement, and current savings.

This gap is expected to worsen: the average age of Colorado's population is rising and at the same time elderly households are becoming a larger share of the population. As the baby boom generation ages, more residents will qualify for public assistance programs that service and support seniors[8].

Figure [x] illustrates the projected growth in Colorado's elderly population and households, as well as the projected elderly share of households, which is also rising.

[8] Econsult Solutions, Inc., *The Fiscal Impacts of Insufficient Retirement Savings in Colorado* (2019), 4.

Figure 1: Projected Growth in Colorado's Elderly Population and Households, 2020-2035

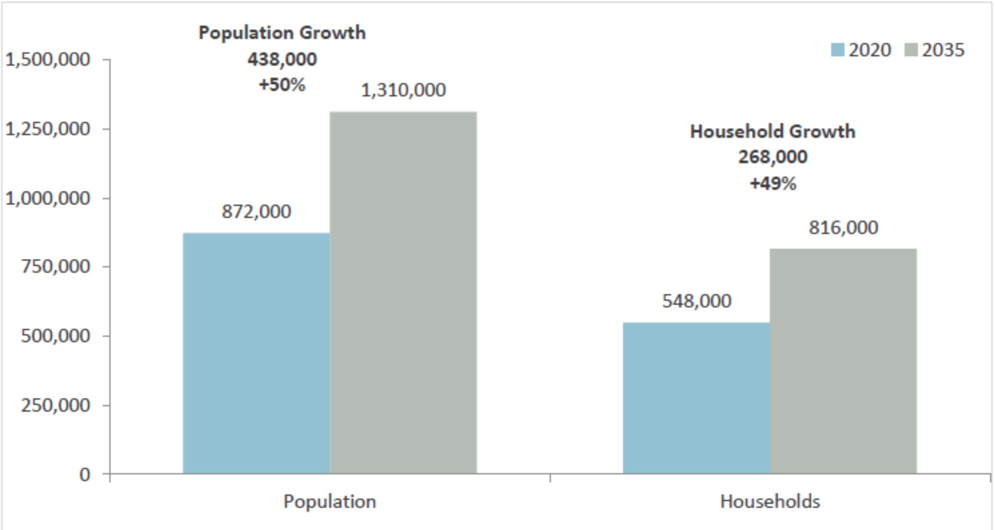
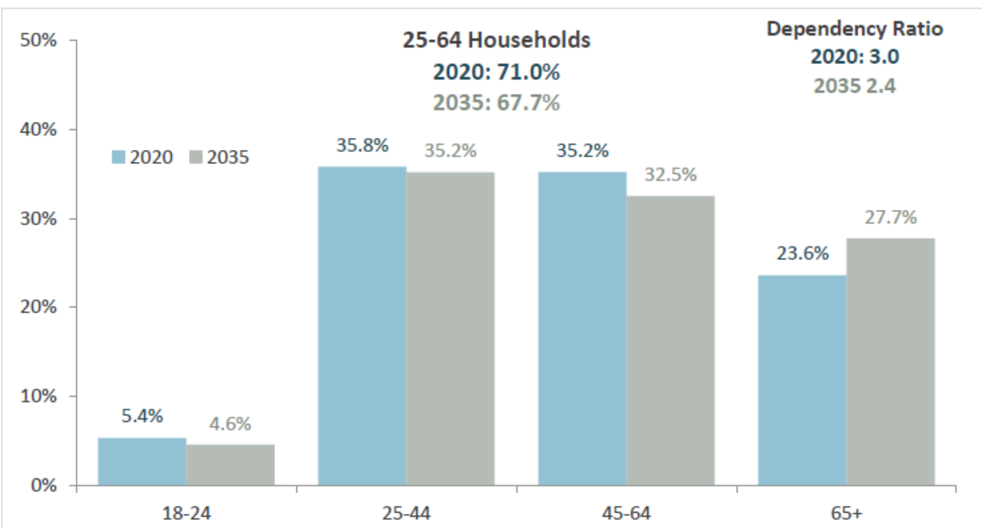


Figure 2: Projected Elderly Share of Colorado Households, 2020-2035

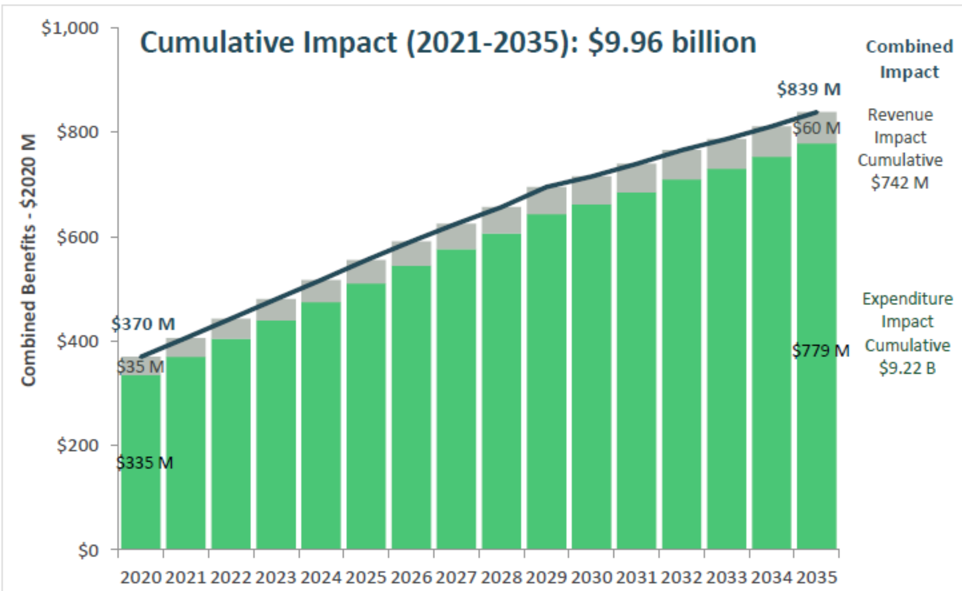


Source: Colorado State Demography Office (2018)

Fiscal Impact of Insufficient Savings.

An analysis of state expenditures and revenue forecasts that the **cumulative fiscal impact to the state from insufficient retiree savings will be nearly $10 billion** over the fifteen year period from 2021-2035, as described following.

Figure 9: State Fiscal Impacts from Insufficient Savings, 2020-2035 ($2020)



It is estimated that in 2020, insufficient retiree savings levels are associated with a total fiscal impact to the state of $370 million. Most of the fiscal impact to the state ($335 million) is the result of the increased program expenditures associated with insufficient savings, with the remaining $35 million attributable to foregone revenues. This combined fiscal impact is projected to rise to $839 million by 2035, comprised of $779 million in expenditure impacts and $60 million in revenue impacts.

It's helpful to understand how this forecast was developed.

To begin, the net fiscal impact of insufficient retiree savings is made up of two elements associated with insufficient savings and associated lower income and expenditure levels of elderly Coloradans:

- the increased expenditures on assistance programs, and
- foregone tax revenues associated with higher incomes and spending

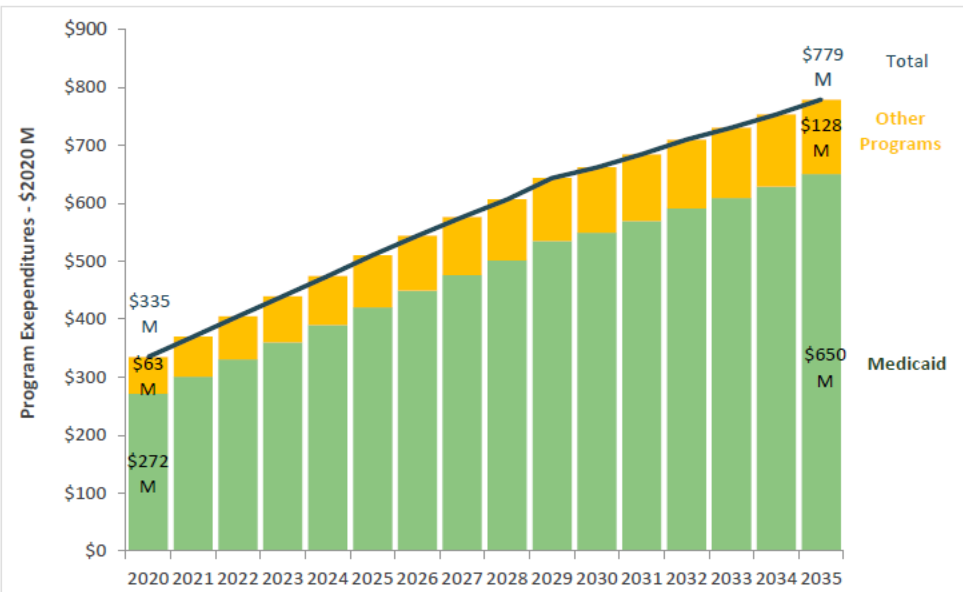
The following walks through relevant current and forecast information associated with both.

Expenditure impacts:

Colorado operates a number of assistance programs for elderly residents which will face an increase in demand as the elderly population grows. In addition, many of these programs (such as Medicaid) are means-tested for eligibility and/or benefit levels, meaning that the level of income available to the state's elderly population has significant impacts on state and federal program costs.

The following illustration shows current and future state program costs associated with insufficient savings[9]:

Figure 4: State Program Costs Impacts from Insufficient Savings, 2020-2035 ($2020)



The aggregate additional state spending attributable to insufficient retiree savings is estimated at nearly $9 billion over the fifteen-year period from 2021-2035[10]

- $7.36 billion - projected state Medicaid expenditures on elderly households
- $1.53 billion - projected state non-Medicaid program expenditures for elderly households (energy assistance, home care allowance, supplemental old age pension payments)
- At over $8 billion, the cumulative federal fiscal impact is also very large

While federal costs do not accrue directly to Colorado taxpayers, they are also significant:

[9] ESI, *Fiscal Impacts,* 6.
[10] ESI, *Fiscal Impacts,* 43-44.

Figure 2.14: Net Federal Program Spending due to Insufficient Savings ($2020)

Program	2020	2035	Cumulative
Medicaid			
Home and Community-Based Services	$75 M	$183 M	$2.06 billion
Long Term Care	$133 M	$291 M	$3.36 billion
Medicaid Dental	$9 M	$24 M	$261 million
Other Medicaid	$71 M	$202 M	$2.21 billion
Sub-Total - Medicaid	**$288 M**	**$699 M**	**$7.89 billion**
Other Programs			
Energy Assistance	$1 M	$2 M	$23 million
Older Americans Act	$3 M	$7 M	$82 million
Adult Protective Services	$0.4 M	$1 M	$10 million
Veterans Community Living	$6 M	$9 M	$115 million
Sub-Total - Other Programs	**$11 M**	**$19 M**	**$230 million**
Total	**$299 million**	**$718 million**	**$8.12 billion**

Note: It is important to recognize that not all of this state and federal level expense can be saved. Colorado will continue to have some level of seniors retiring in poverty; however, if savings can be increased there is an opportunity for significant financial savings for the state.

Revenue impacts:

The income level of Colorado's elderly households also impacts their level of spending on a variety of goods and services each year. Differences in household spending have ripple effects throughout the economy, impacting the level of economic activity and employment statewide. This activity in turn impacts tax revenue collections for the state and other jurisdictions.

While more modest than the expenditure impacts, more savings creates an additional benefit – retirees have more money to spend both on necessities and for discretionary spending[11].

- Increased spending associated with sufficient savings could grow to $724 million by 2035, creating over 6,130 jobs that generate $241 million in earnings.
- Cumulatively over the next fifteen years this represents over
    - $9 billion in total economic impact
    - An average of 5,100 new jobs per year (76,000 over the period), and
    - $3 billion in job-related earnings, driving
    - Net state tax revenue of $742 million

[11] Ibid, 7-8.

These increases in retirement savings will increase the expected levels of spending by Coloradans in retirement, driving both increases in state revenue, and job formation, as reflected below.[12]

Figure 7: Economic Impact from Household Spending with Increased Retirement Savings

Impact Type	2020	2035	Cumulative
Direct Output ($M)	$218	$363	$4.55 billion
Indirect & Induced Output ($M)	$213	$361	$4.51 billion
Total Impact	**$431 million**	**$724 million**	**$9.06 billion**
Employment (FTE)	**3,570 jobs**	**6,130 jobs**	**76,160 job-years**
Employee Compensation	**$141 million**	**$241 million**	**$3.00 billion**

Figure 8: State Revenue Impacts with Increased Retirement Savings ($2020)

Tax Type	2020	2035	Cumulative
Personal Income Tax ($M)	$31.3	$54.7	$676 million
Sales and Use Tax ($M)	$2.7	$4.3	$54 million
Corporate Income Tax ($M)	$0.4	$0.7	$8 million
Motor Fuels Tax ($M)	$0.1	$0.2	$3 million
Total State Tax ($M)	**$35 million**	**$60 million**	**$742 million**

Combined impacts:

As shown, the cumulative fiscal impact to the state from insufficient retiree savings is estimated at over $10 billion over the fifteen year period from 2021-2035.

The related Federal impact is over $9 billion, shown here[13]:

Figure 10: Federal Fiscal Impacts from Insufficient Savings, 2020-2035 ($2020)

Federal Impact Type	2020	2035	Cumulative
Program Expenditure Impact	$299 million	$718 million	$8.12 billion
Revenue Impact	$39 million	$66 million	$824 million
Total State Tax ($M)	**$338 million**	**$784 million**	**$8.95 billion**

The combined state and federal impact of insufficient retirement savings for this period is **over $19 billion**.

[12] ESI, *Fiscal Impacts,* 8.
[13] Ibid, 10.

Addressing the need for greater retirement savings sufficiency will have a significant impact on state finances, if the state is able to meet key assumptions, as discussed shortly.

One additional note: Colorado's Taxpayer Bill of Rights (TABOR) limits annual state revenue growth to inflation and population growth. The relative aging of the population is anticipated to lead to an increase in assistance program demand, above and beyond overall population growth. Further, health care costs, which represent the bulk of service demands for this group, are anticipated to grow faster than inflation. This combination of factors suggests that the cost to provide a consistent level of services will outpace population and inflationary growth. Absent any change in revenue growth, this dynamic will put significant pressure on funds available for other state priorities[14].

[14] ESI, *Fiscal Impacts,* 43.

Improving Outcomes in Colorado – Models and Opportunities.

In accordance with SB 19-173 the Board studied two approaches to increasing the amount of retirement savings by Colorado's private sector workers:

- A small business marketplace
- An automatic enrollment payroll deduction IRA program

The Board also studied the potential impact of greater financial education on increasing retirement savings.

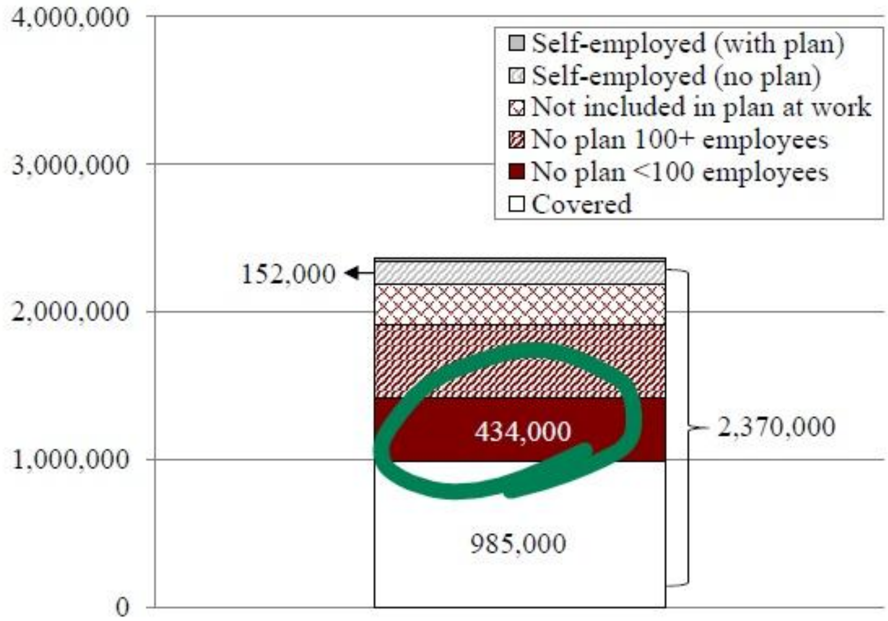
Small Business Retirement Marketplace

A Small Business Retirement Marketplace would be designed to provide employer access to low-cost retirement plans through an online portal. It would be available to employers with fewer than 100 employees. It could also be made available to independent contractors and other workers on an opt-in basis. The State would take on a number of administrative tasks to reduce the responsibilities required of the employer in offering a retirement plan.

Importantly, the state would want to understand in advance how many employers would be likely to use a Marketplace, if offered, and how much additional retirement coverage and savings might be achieved.

In Colorado, an estimated 434,000 employees work for small businesses that do not offer a retirement plan.

Figure 1. *Number of Colorado Workers by Coverage Status, 2019*



Sources: CRR calculations from U.S. Census Bureau, *Current Employment Statistics* (2019); *Current Population Survey* (2014, 2018); and *Business Dynamics Statistics* (2016).

Workers at these businesses differ from covered workers in significant and meaningful ways.
As a population uncovered workers at small businesses are more likely to be employed in services jobs (restaurant, food service and hospitality; craftspeople, plumbers, electricians, installers), in construction, and in the raw materials industries (agriculture, mining, forestry).[15]. On average, they are younger and a smaller proportion have achieved some college education or completed a degree program. They are also more likely to earn less, experience more job transition or to be more mobile, are somewhat more likely to work part time, and tend to have less financial experience and capability[16].

The data suggest that approximately 66,000 employers have fewer than 100 employees and do not currently offer a retirement plan. Two-thirds of the employers that would be targeted by the Small Business Marketplace are extremely small, with fewer than 5 employees.[17]

The success of a Colorado retirement marketplace hinges on employer adoption and use. Surveys of employers indicate general interest in helping employees save for retirement. However, employer

[15] Ibid, 5.
[16] Center for Retirement Research at Boston College (CRR), *Study B: Colorado Small Business Marketplace*, 3-8.
[17] Ibid, 12-13.

interest has not translated into action: evidence from prior initiatives to help employers offer retirement plans suggests that few employers are likely to participate voluntarily.
Four recent initiatives provide insight into expected take-up rates by employers when simpler and lower cost retirement options are offered:

- Federal programs for small employers (SARSEPs, SIMPLEs, and MEPs)
- U.S. Treasury's My Retirement Account (MyRA)
- Washington State's Retirement Marketplace
- Massachusetts' Connecting Organizations to Retirement (CORE) plan

Despite the effort and innovation – leading to simpler plans, lower costs, lower risk, multiple points of access, and in one case very safe and stable investments, the trend data on coverage indicate that these programs **have not led** to a significant expansion of coverage on either a nationwide or state-wide basis.

For Coloradans, results from federal initiatives, Washington State's retirement marketplace, and other voluntary retirement programs suggest that few employers are likely to participate in the absence of an employer mandate. Preliminary outcomes from Washington's marketplace and Massachusetts' CORE plan indicate that less than 1 percent of employees at eligible employers are currently enrolled.[18]

The Center for Retirement Research states, "Results from national programs validate these findings and suggest that employers have little interest in voluntarily starting a plan, even when minimal responsibility is required."[19]

The outcome of these voluntary studies is not surprising given that – in addition to cost and administrative concerns – other challenges stop small businesses from offering plans.

- Employee-related concerns include having too few employees and a perceived lack of employee interest.
- Business-related concerns include the length of time in business, uncertain profitability, and the expense of providing an employer match.

The evidence to date suggests that employer participation in a marketplace will not be substantial enough to measurably increase the level of retirement savings by workers in Colorado.[20]

[18] CRR, *Study B: Small Business Marketplace*, 18.
[19] Ibid, 20.
[20] Ibid, 19.

Automatic Enrollment Payroll Deduction IRA program

An automatic enrollment payroll deduction IRA program (Auto IRA) would be designed to provide work-based access to retirement savings accounts for employees whose employers do not offer plans. For workers, programs like these offer the simplicity of automatic features like automatic enrollment and auto-escalation of contributions over time. They also offer the flexibility to make adjustments to savings rates (from 0% to 100%) and to choose from a limited menu of diversified investment choices. And of course, they offer the ability to opt out of savings altogether, and to opt back in at a later time if desired.

For employers, Auto IRAs serve as a steppingstone between offering a traditional retirement plan and not providing any form of retirement access. As mentioned earlier, employers express an interest in helping employees save for retirement, but natural barriers exist. Auto IRAs are arguably the simplest way to provide access to work-based retirement savings with minimal employer impact. Because they are not plan sponsors but are in fact satisfying state-based requirements to facilitate, employers are not fiduciaries and are not responsible for program-related decisions or provider monitoring. Employers do not contribute to Auto IRA accounts or provide account-related reporting. Employer roles are restricted to administrative functions, which generally include registering with or confirming exemption from the state's program, providing workforce contact information, and facilitating a saver's payroll deductions into the program.

For purposes of this analysis, the Center for Retirement Research (CRR) generally modeled its study on the program characteristics outlined in SB19-173. The general characteristics of Auto IRA programs include:

- Contributions:
    - A standard savings rate – 5% is the level used by the existing Auto IRA programs
    - Auto-escalation – existing programs use caps of 8% (California) and 10% (Oregon)
    - Ability to contribute more or less – any whole percent from 1% to 100%
    - Dollar caps on contributions in line with federal annual limits
- Investments:
    - Target Date Funds (diversified balanced funds aligned with retirement ages)
    - Capital Preservation Fund
    - One or more additional funds as established in the program's investment policy
- Account types:
    - Roth IRAs as a standard
    - Traditional IRAs as an election
- Withdrawals
    - Upon retirement and at any time
    - Consistent with the requirements of the account type

For purposes of the following analysis, CRR assumed the program would be facilitated by employers with five or more employees that have been in business for at least two years. Estimates show that approximately 21,000 employers and 918,000 employees could be directly impacted by the program.[21]

If the program is also made available on an opt-in basis, an additional 467,000 workers could be provided with easy access to a retirement program in use by their peers in the state.[22]

For purposes of computing fiscal impact, these workers have not been included, however they could benefit:

- 21,000 workers whose employer offers no plan and has been in business less than two years
- 181,000 self-employed workers (independent contractors)
- 265,000 workers whose employer offers a plan, but not to them (part time workers and other categories)

As has been covered earlier, employees without a plan at work are different from covered workers in many ways.

Uncovered workers are disproportionately less educated, young, latino/latinx, and foreign-born. They are more likely to be employed in service occupations, construction, and raw materials industries. In general, workers without a plan in Colorado, like uncovered workers elsewhere in the country, are more likely to work fewer hours, work part time, and earn less than covered workers. Uncovered workers are under greater financial stress and are also less familiar with commercial financial products and have less understanding of financial concepts like compound interest and portfolio diversification. Relative to covered workers, uncovered workers are less likely to have a checking account or pay for things online.[23]

Despite their limited financial resources and lack of experience with financial institutions, uncovered workers need to save additional income for retirement. While their low earnings allow them to benefit from the progressive structure of the Social Security system, Social Security alone will not provide adequate levels of replacement income. Additional savings through auto-IRAs can help bridge the gap between Social Security benefits and target replacement rates.[24] [illustration?]

The design features of Auto IRAs – accessibility, simplicity and portability - work well for this population for a number of reasons[25]:

- First, availability at work on a payroll deduction basis, coupled with automatic enrollment, makes it easy for workers to start saving and make adjustments, if needed, when they are ready.

[21] CRR, *Study A: Colorado Secure Savings Plan*, 2.
[22] Ibid, 2-3.
[23] Ibid, 4-8.
[24] Ibid, 9.
[25] Ibid, 10-11.

The simplicity of Auto IRAs removes several other barriers that could otherwise impede saving for retirement. In addition to simplifying the enrollment process, autoenrollment tends to increase program participation by harnessing inertia; once people are saving in these programs, they tend to stay. Limiting the number and complexity of funds offered makes the program more approachable to workers once enrolled and can help in the process of improving financial literacy.

- Second, a Roth IRA offers employees access to account balances should funds be needed before retirement. Given that employees without a plan tend to be lower income, one key advantage of a Roth IRA is the lack of penalties for early withdrawals of contributions. While these savings are intended to be used during retirement, an important goal is that workers accumulate meaningful savings that provide additional income security. Therefore, the use of these accounts during financial emergencies that would otherwise result in debt is consistent with ultimate program goals.

- Third, the saver's IRA account is portable across any employer in the state also facilitating Secure Savings. Because workers without a plan tend to change jobs relatively frequently, plan portability helps workers consistently save for retirement as they move from one employer to the next. The plan will become increasingly portable over time as more employers enroll in the program. This enables workers to maintain coverage as they change employers, and to save for retirement in one consistent account over time. IRAs are also portable to be used outside the state's program.

It is important to understand the implications for employers in Colorado.

The data suggest that approximately 21,000 employers have five or employees and at have been in business at least two years – and would be covered as facilitating employers under this program.[26]

Employers would be required to perform certain functions in association with the program, including:

- register to facilitate
- provide the program with a limited set of employee census data for purposes of initiating communication and setting up accounts
- execute payroll deductions for participating employees, and
- add new employees to the program when they become eligible

Employer experience will be impacted by the simplicity of program design, engagement, and the ease of use of any program-related tools and interfaces. Since programs rely on payroll deductions as the means for most contributions, the program should also accommodate a range of payroll administration approaches. These include payrolls outsourced to a service provider, administered in-house with software, and administered in-house without software. A number of other simple factors can also

[26] CRR, *Study A: Colorado Secure Savings Plan*, 12.

minimize employer effort and increase satisfaction, including making program ambassadors or field representatives available, providing clear instructions and information, and leveraging the capabilities of the program's administrator to minimize the employer's role[27].

As with any other solution proposed, the important question is – will it meaningfully increase coverage and retirement savings in Colorado?

Existing programs serve as a useful guide, even though they are still in very early stages of implementation and all are, as yet, working to complete initial statewide rollout.

It is common that despite a new Auto IRA program having been established and promoted, in the early years of rollout there is often a lack of awareness of the program's existence – both by employers and by workers. Gradually as the program rolls out around the state, awareness and engagement increase. Despite their newness, programs are seeing that in fact workers are enrolling, are saving, and are expressing their appreciation for the opportunity to save for retirement at work. [cite source if retained]

Early results show Auto IRA participation rates of between half and two-thirds of eligible employees, as follows[28]:

- About two-thirds of employees stay in the program while a third explicitly opt out, based on data from the longest running program.
- Additional factors appear to affect how many accounts are actually funded – including employee mobility, employer timeliness in executing payroll deductions, and more.

Recognizing that it's too early to consider this data to be final, the question is whether a participation rate of one-half to two-thirds constitutes "successful participation".

The national participation in IRAs in the absence of a federal auto-IRA program provides a useful baseline. Currently, while IRAs are available to any individual wishing to open a retirement account, as of 2016, only 14 percent of U.S. households contributed to an IRA[29].

- These 14% tend to have a college education, additional retirement savings such as a 401(k) through an employer, and higher household earnings.
- Today, of the population currently targeted by auto-IRA programs, very few voluntarily enroll in an IRA.

Relative to this baseline, a 50% to 70% participation rate in a state-administered auto-IRA program represents a meaningful expansion of retirement coverage.

---

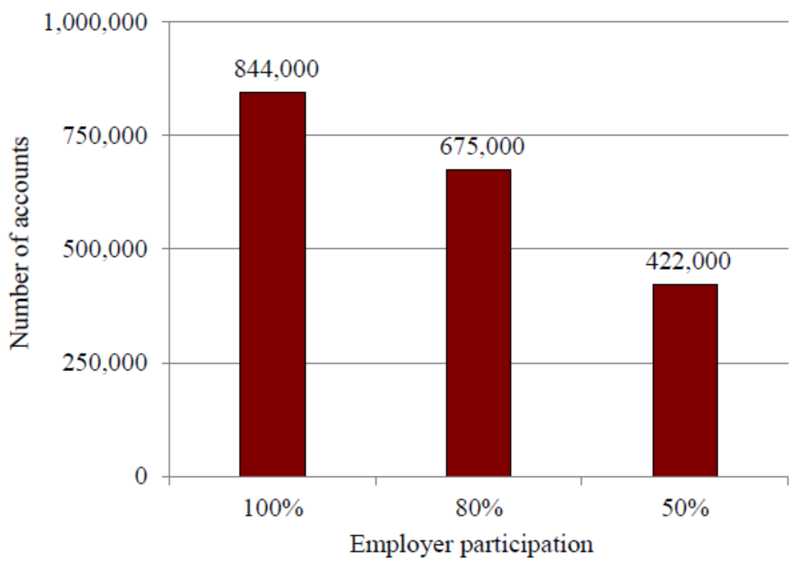
[27] CRR, *Study A: Colorado Secure Savings Plan*, 14-16.
[28] Ibid, 11-12.
[29] Ibid, 12.

Importantly, could that expansion in coverage and participation be enough to generate the sort of positive fiscal impacts intended?

Data from ESI's financial impact study show that to close the average household retirement savings gap in Colorado over time would require an annual savings of $1,230 under moderate return assumptions for savings contributed over 30 years.[30] Interestingly this is consistent with the early results experienced by OregonSaves and CalSavers, where average savings rates are about $110 a month – and just over $1,200 a year.

Data from CRR's analysis shows that under a range of scenarios, a Colorado Secure Savings Program could lead to the establishment of funded retirement accounts for 422,000 to 844,000 workers by Year 20, depending on how many employers ultimately facilitate.[31]

Figure 21. *Number of Accounts in Year 20 across Employer Participation Rates*



Source: CRR calculations.

While it is recognized that not all eligible Coloradans will participate, those who do are likely to significantly change their own retirement readiness.

The program also has the ability to positively impact near-retirement workers, by allowing them to defer the start of their Social Security payments. Up to age 70, the average retiree who delays taking Social Security can increase their lifetime benefit by between 5% and 8% a year. [confirmation, citation]

---

30 ESI, *Fiscal Impacts,* 53.

31 CRR, *Study A: Colorado Secure Savings Plan*, 35.

In addition to taking a close look at possible retirement savings programs for the state, The Board also studied the potential impact of greater financial education on increasing retirement savings.

Colorado has a history of taking an active role with regard to financial education and empowerment in the state. []

As part of the current effort the Board retained Corona Insights to take a fresh look at financial literacy and empowerment in the state. Corona's research process included a review of existing literature and state data, focus groups and a panel survey with residents of both the Front Range and other parts of the state, and interviews with financial planning experts and practitioners.

Corona's work identified several interesting characteristics of Coloradans:

- Most see themselves as responsible for their own retirement savings[32]
- Many respondents expressed nervousness and anxiety about retirement planning[33]
- Many found fear of making the wrong choice paralyzing and overwhelming[34]
- Savings strategies that require minimal action are viewed as more successful and more likely to make retirement savings easy for people
- Those without employer sponsored retirement savings plans experience higher levels of difficulty saving for retirement[35]

As part of their research, Corona identified five types of barriers to expanded savings in Colorado, including[36]:

- Planning Barriers: challenges that prevent people from understanding their needs and developing a plan for retirement saving.
- Execution Barriers: challenges in taking advantage of the long-term beneficial effects of saving over one's earnings lifetime.
- Systemic Barriers: challenges in starting up a retirement account.
- Resource Barriers: lacking specific skills or income to effectively save money.
- Persistence Barriers: an inability to maintain long-term gains due to a lack of consistent saving and/or prematurely withdrawing money from retirement savings for other purposes.

An analysis of these barriers led to a series of conclusions and recommendations as follows[37]:

- Conclusion 1: Coloradans recognize that retirement is an important topic that is not top of mind

[32] Corona Insights, *Retirement Savings Research* (2019), 41.
[33] Ibid, 45.
[34] Ibid, 46.
[35] Ibid, 48.
[36] Ibid, 50-59.
[37] Ibid, 10-25.

  - Recommendation: Get people thinking about retirement savings
    - Broad messaging campaign to discuss the benefits of retirement savings, regardless of age or amount saved
    - Support development of financial socialization among youth
- Conclusion 2: Savings systems need to be available, simple, automated, and back of mind
  - Recommendation: expand access to workplace retirement plans with features that include opt-out, standard and easy investment choices, savings auto-increase, and matching contributions
- Conclusion 3: Coloradans do not know how to get information about saving for retirement
  - Recommendation: give people an unconflicted, credible source for financial learning
- Conclusion 4: Coloradans need help thinking about investing, and not just about saving
  - Recommendation: educate – possibly through a broad campaign to help Coloradans understand and use financial investments, including in workplace plans
- Conclusion 5: Some Coloradans realistically cannot save for retirement (right now)
  - Recommendation - combine efforts with other programs to serve low-income Coloradans
- Conclusion 6: Coloradans are generally interested in receiving information via employers
  - Recommendation: in conjunction with recommendations above, make information available to and through employers where it makes sense

Improving Retirement Security – These Solutions Fall Short.

Following the Board's analysis, it has determined that these solutions will not help the state achieve a measurable difference in retirement savings sufficiency:

The Small Business Retirement Marketplace. It is anticipated that a marketplace would require meaningful cost to develop, implement and maintain for very little impact. It may be possible to partner with an existing state's marketplace – still at some cost to the state. Most importantly, such platforms have not shown themselves to be effective at increasing savings rates.

Financial literacy initiatives on their own. As seen in the outcome of the efforts identified above, these have also not shown that they are able to significantly increase savings rates.

Improving Retirement Security - Recommendations for Colorado

One solution does have a demonstrated potential to generate increased retirement savings, and to begin to close the retirement insufficiency gap that is growing in Colorado. That solution is an Auto IRA program with characteristics largely as described above.

As noted, "The plan design features of auto-IRA programs are well-suited to meet the needs of targeted employees" because Auto IRA programs are accessible, portable, and simple to facilitate and use.[38] Despite interest and good intentions, many employers fail to start or provide retirement saving plans for their workers. An Auto IRA program provides the simplest alternative, quickly expanding coverage and use, and setting workers on the road to real savings and real financial resilience.

The Board asked Boston College's Center for Retirement Research to evaluate feasibility of an Auto IRA program in Colorado.

In addition to the participation of both employees and employers, a successful auto-IRA program must attract a private sector provider and not create undue risks to the State. To evaluate these dual goals, the feasibility analysis uses two key metrics. The first metric is the time it takes the program to cover its operating costs for the administrator and the State – i.e., to become "cash-flow positive." The second metric is the time it takes for the program to become profitable to the administrator and cost-neutral to the State – i.e., to become "net positive." This second metric considers both the start-up costs of the program and initial operating cost shortfalls. Both metrics can be affected by factors currently under the State's control such as the default contribution rate and the initial fee charged on assets. They also can be affected by factors outside the State's control, such as ultimate employer eligibility or program costs.

- Under the baseline scenario, Colorado Secure Savings is forecast to be cash-flow positive within four years for the state and ten years for the program administrator.[39]
- Under this scenario the program is forecast to become net cash flow positive to the state in 6 years, and to the administrator in 14 years. During this process, the largest potential deficit is projected to be $2.3 million for the State and $62.1 million for the administrator. This maximum deficit serves both as a measure of risk to the two parties as well as the size of a loan the program might require to support early operations.
- Alternative financial arrangements, such as a revenue division weighted more to the administrator, or per-account fees, can be used to reduce the administrator's largest deficit and timeline to breakeven. However, under an alternative financial arrangement, the State's finances become more sensitive to changes in employer participation, program costs, and particularly the level and type of small employer reimbursement introduced.

---

[38] CRR, *Study A: Colorado Secure Savings Plan*, 10.

[39] Ibid, 22. Baseline scenario: Roth IRA, standard savings rate of 5% escalating to 8%, a program rollout period of four years, state startup costs of $730,000, per-account operating costs of $35 per year, all-in saver fees capped at 100 basis points in Year 1-5 and 75 basis points thereafter, fee split of 10/15/75 for investments, state administration, and recordkeeping.

- In all cases, estimates show that State costs amount to less than one percent of total State expenditures – representing a very low-risk proposition to improve the retirement security of tens of thousands of Colorado workers. Experience to date shows that auto-IRAs have successfully created more than 100,000 employee accounts across the three states with implemented programs. And once mature, these programs are designed to be self-sustaining and to recoup start-up costs. Overall, Secure Savings would be well positioned to achieve its goals of helping people build their own assets for retirement at a minimal cost and risk to both employers and the State.[40]

Recommendation 1: Establish the Colorado Secure Savings Auto IRA Program

[consider how much detail to include here regarding any specific Auto IRA program recommendation/s; should this recommendation include proposed funding – level and structure]

Recommendation 2: Support Financial Empowerment initiatives that build on the foundation that currently exists in the state:

- As noted earlier, participation in retirement savings – including through an Auto IRA – can help in the process of improving financial literacy. It provides a place and a purpose for relevant information that begins to expand a saver's financial experience and empowerment.
- The Colorado Secure Savings Plan Board recommends that these actions be taking alongside the establishment of an Auto IRA program in the state:
    - [enumerate and describe]

Conclusion.

Evidence from state auto-IRA initiatives that have already been launched suggest that these programs have great potential to provide uncovered workers with access to a simple and effective workplace-based retirement savings vehicle. Two years into its rollout, OregonSaves has over 60,000 funded accounts and about $40 million in total account balances. Within a single year of operation, Illinois has 42,000 funded accounts (totaling $11 million) and, in less than a year, California has close to 4,000 funded accounts (totaling $1.4 million). While these data are very preliminary, these accounts and account balances represent savings for retirement that would not have been accumulated in the absence of an auto-IRA program.

Colorado Secure Savings is an opportunity to build on the lessons learned from live programs to date to expand retirement access to tens of thousands of uncovered workers in Colorado. These workers tend to be lower income, highly mobile, and less educated. And the program design of Secure Savings – offering accessibility to account balances, portability across employers, and program simplicity – is well-suited to meet the needs of this population.

[40] CRR, *Study A: Colorado Secure Savings Plan*, 36-37.

Implementation Timeline and Program Expectations

- To be developed

- Timelines generally require implementation within 24 months of bill passage
- The underlying implementation plan can be divided into several phases, with these milestones
  - Appoint Board and establish staffing for the program
  - Engage in-state agencies / engage stakeholders
  - Complete any final analysis required for program establishment; confirm program design
  - Sequentially issue RFPs for and retain program service providers: legal, marketing, program administration, investments
  - Develop detailed implementation plan and approach, including program rollout schedule
  - Launch program; receive first contributions

- Program Expectations should cover
  - Metrics related to forecast growth over time – under multiple scenarios
  - Startup and operating costs and timeline – enough information to support a thoughtful fiscal note and request in association with a bill

PLEASE NOTE – the purpose of this draft is to get the major ideas, content flow and supporting elements in place. This allows us to identify any missing data, arguments, or elements. From here forward the purpose is **amplification, illustration, and simplification** of the information presented.